

INTERNAL AUDIT REPORT

Appendix 3



Financial Management Code 2021/22

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Financial Management Code 2021/22

1. Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (FM Code) in October 2019. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets out the standards of financial management for local authorities.

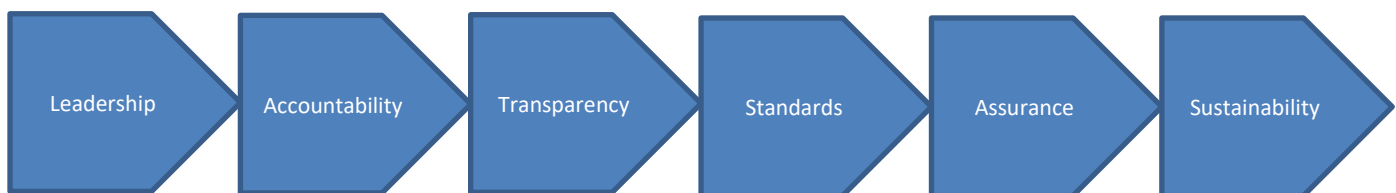
Each local authority must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected Members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected Members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority.

Following a review by CIPFA of the implementation of the FM Code, they expected Councils to have reviewed their compliance, put in place governance improvements and achieved compliance by the start of 2021/22. It is clear that the Council has not achieved this but it is recognised that its priority over the years 2020 and 2021 had to be the fundamental budget review it had to undertake to close its then £4m annual budget gap (Budget Challenge 2025). Now that programme has finished and its savings embedded within the 2022/23 budget and MTFs, the Council has now endeavoured to review and identify its compliance with the FM Code.

The Council's Director of Finance, IT and Assets has reviewed compliance with the Code using a self-assessment document developed by Internal Audit based on the Code and associated guidance notes. The Director has also developed a local framework by which the Council could then score each element of the Code (good, fair or poor) and determine an overall score based on a grid that compares "Policies & Procedures" against "Governance". Internal Audit has undertaken a review of the self-assessment to provide independent confirmation of compliance. This report provides a summary of the review carried out by Internal Audit and identifies any additional areas for improvement for the Council to consider.



2. Summary of findings

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies the risks to financial sustainability and introduces an over-arching framework of assurance which builds on existing financial management good practice. The principles are set out below and have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.








The Council's self-assessment and supporting evidence has been used to inform this review together with the cumulative knowledge and experience of Internal Audit from ongoing work at Harborough District Council and other local authority clients. The assessment has been discussed with the Director and the level of compliance and potential additional areas for improvement are summarised in the table below. It is for the Council and managers to determine whether any action to address the areas for improvement would be appropriate and proportionate to the nature and risk profile of the authority.

Principal / standard	Self-assessed level of compliance	Self-assessed areas for improvement	Internal audit comments
Leadership			
A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.	Fair 	<ul style="list-style-type: none"> • Development of a VFM policy / statement / strategy; including a monitoring framework (this may include benchmarking and VFM related KPI's). • Undertake a programme of service benchmarking. • Development of a partnership governance framework. • Undertake a customer survey of the finance service. • Undertake an assessment of balance sheet risks. • Balance sheet risks to be included in quarterly risk reports. • Miscellaneous Debt Performance to be reported to members as part of 2022/23 Quarterly Financial Performance. 	<p>Based on the self-assessment and evidence provided, it is Internal Audit's view that the overall rating and areas for action are fair and reasonable.</p> <p>No additional actions have been identified by Internal Audit.</p>
B. The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.			
O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.			
Accountability			
D. The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	Fair 	<ul style="list-style-type: none"> • A review of the Code of Corporate Governance should be undertaken, including the implementation of the annual review process. • Improvements can be made to financial reporting to Cabinet (quicker/more graphical) and Corporate Management Team (more detailed/risk based/better integration with delivery performance). 	<p>Based on the self-assessment and evidence provided, it is Internal Audit's view that the overall rating and areas for action are fair and reasonable.</p> <p>No additional actions have been identified by Internal Audit.</p>
P. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code.			
Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.			



Principal / standard	Self-assessed level of compliance	Self-assessed areas for improvement	Internal audit comments
Transparency			
L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	Fair 	<ul style="list-style-type: none"> Development of a long-term financial strategy. Preparation of an engagement strategy. The project management methodology should include a formal options appraisal. 	Based on the self-assessment and evidence provided, it is Internal Audit's view that the overall rating and areas for action are fair and reasonable.
M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.			No additional actions have been identified by Internal Audit.
Standards			
H. The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	Good 	<ul style="list-style-type: none"> None 	Based on the self-assessment and evidence provided, it is Internal Audit's view that the overall rating is fair and reasonable.
J. The authority complies with its statutory obligations in respect of the budget setting process.			No additional actions have been identified by Internal Audit.
K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed Financial reserves.			No additional actions have been identified by Internal Audit.
Assurance			
C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	Fair 	<ul style="list-style-type: none"> Nolan Principles awareness training, including Code of Conduct, for new and continuing Members. Monthly financial monitoring reports for CMT/SLT based on risk. Consideration be given to any future LGA Peer Review to include an assessment of financial resilience. 	Based on the self-assessment and evidence provided, it is Internal Audit's view that the overall rating and areas for action are fair and reasonable.
F. The authority has carried out a credible and transparent financial resilience assessment.			No additional actions have been identified by Internal Audit.
N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.			No additional actions have been identified by Internal Audit.



Principal / standard	Self-assessed level of compliance	Self-assessed areas for improvement	Internal audit comments
Sustainability			
E. The financial management style of the authority supports financial sustainability.	Fair ●	<ul style="list-style-type: none"> Provision of budget management training for officers. Refresh of the LGA peer review process once the new corporate management team is in place. 	<p>Based on the self-assessment and evidence provided, it is Internal Audit's view that the overall rating and areas for improvement are fair and reasonable.</p> <p>No additional actions have been identified by Internal Audit.</p>
G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.			
I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.			

The leadership team should consider the findings of the self-assessment and Internal Audit review and develop a formal action plan for the identified areas of improvement. These should also be reflected in the 2021/22 Annual Governance Statement.

3. Limitations to the scope of the audit

This is a consultancy review and, as such, is not designed to provide assurance over the adequacy of controls. The Auditor has sought to review the Council's self-assessment and verify the responses through review of evidence, where possible, providing an independent view of potential areas for improvement. Internal Audit has not conducted a full assessment against every element of the Code.

It is the responsibility of management to ensure that controls are designed and operated in a way which ensures that the Council achieves its objectives, whilst minimising the risk of fraud and error. The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.